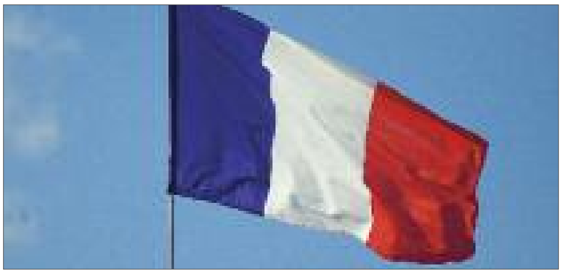
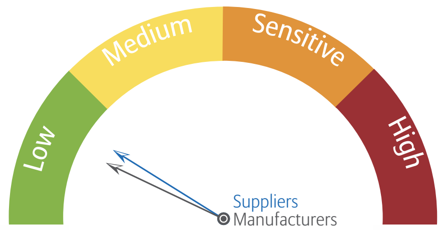


Automotive in France

Revving Up



Automotive Non-Payment Risk
(Q2 2017)

- **Recovery of economic growth and consumer confidence at home supported sales growth of +4.2% in the first eight months of 2017**
- **French manufacturers and suppliers remain in strong financial standing**
- **Generous EV policies may face near-term budgetary constraints**

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Following two consecutive years of strong sales growth, the car market in France beat expectations the first eight months of 2017, delivering +4.2% growth y/y. The pickup can be explained by a broad recovery in domestic business activity. We forecast vehicle sales to grow by +3.0% in 2017, and +2.0% in 2018.

Manufacturing: a well-oiled machine

French manufacturers compensated for the sharp downturns in Russia and Brazil by relying on their principal market in Europe. In 2016, 78% of French vehicles produced by French car manufacturers were sold abroad and 49% were destined to the EU. French manufacturers achieved an average EBIT Margins of 5.7% in 2016, above the sample average while suppliers saw their average EBIT margin rise to 6.7%, below the average of countries reviewed. Both manufacturers and suppliers have maintained healthy balance sheets (i.e. high solvency) and present the second most efficient operating cycle in our country panel with low working capital requirements. Regarding capital expenditure, French industry players lag behind their German (EUR34.0bn) and Italian (EUR10.0bn) counterparts, with a total volume of EUR6.3bn in 2016.

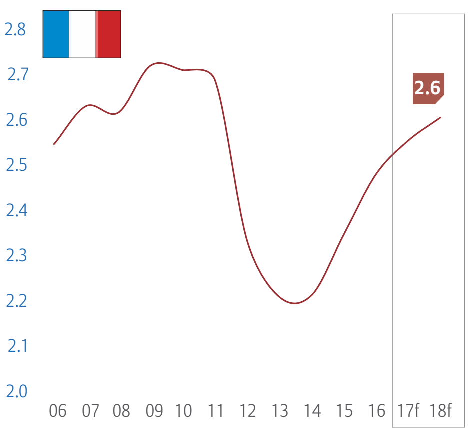
Partnerships matter

Manufacturers spent EUR6.1 billion on R&D in 2015 and filed 858 patents in 2016, ranking fourth behind Germany, Japan, and the US in both categories. In August 2017, PSA acquired GM's European arm for EUR1.75bn, including the Opel and Vauxhall brands. French suppliers continue to be proactive in forging strategic partnerships to pursue connectivity and autonomous driving technologies. In March 2017, Valeo acquired minority participations in Kuantic, specialized in telematics, and a 100% stake in Gestigon, a German startup focused on 3D image recognition. In June 2017, Cisco and Valeo announced a partnership to create strategic innovations related to smart mobility services (Cyber Valet Services).

More incentives on the horizon

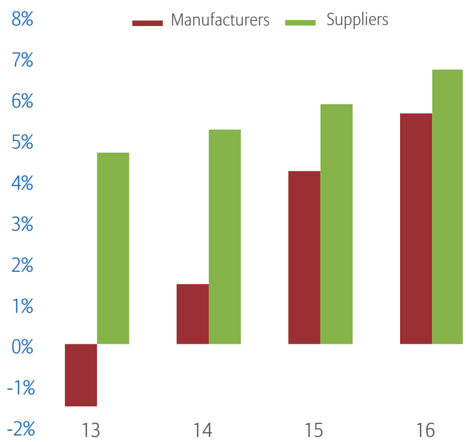
In July 2017, Macron's government announced that Diesel and petrol powered cars would be banned by 2040. The government is also expected to review the existing scrappage scheme (*prime à la casse*), which has been a dismal failure. The new program would replace two separate subsidies for modest (nontaxable) households with a EUR2,000 grant for the destruction of cars registered before January 2006. This measure supplements subsidies of up to EUR10,000 for newly-purchased electric cars. In light of budgetary pressures, these measures could be postponed. Indeed, the fiscal re-alignment of diesel fuel (with petrol) will not occur before 2022. Nonetheless, with 20,000 electric vehicles sold in the first half of 2017, we expect EV sales to continue exhibiting solid double-digit growth. In March 2017, the largest French automaker, PSA, announced that 80% of its models would be electric by 2023 and has already begun testing autonomous driving technologies on roads. ■

Chart 1 New Vehicle Registrations
(in million)



Sources: OICA, IHS, Euler Hermes forecasts

Chart 2 EBIT Margin Manufacturers vs Suppliers in France



Sources: Bloomberg, Euler Hermes